

## Evolution and Perspectives of Economic Relations of the Republic of Moldova and the European Union

Siscan, Zorina; Hachi, Mihai

Veröffentlichungsversion / Published Version  
Zeitschriftenartikel / journal article

### Empfohlene Zitierung / Suggested Citation:

Siscan, Z., & Hachi, M. (2013). Evolution and Perspectives of Economic Relations of the Republic of Moldova and the European Union. *Studii Europene*, 2, 66-83. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-413057>

### Nutzungsbedingungen:

Dieser Text wird unter einer Deposit-Lizenz (Keine Weiterverbreitung - keine Bearbeitung) zur Verfügung gestellt. Gewährt wird ein nicht exklusives, nicht übertragbares, persönliches und beschränktes Recht auf Nutzung dieses Dokuments. Dieses Dokument ist ausschließlich für den persönlichen, nicht-kommerziellen Gebrauch bestimmt. Auf sämtlichen Kopien dieses Dokuments müssen alle Urheberrechtshinweise und sonstigen Hinweise auf gesetzlichen Schutz beibehalten werden. Sie dürfen dieses Dokument nicht in irgendeiner Weise abändern, noch dürfen Sie dieses Dokument für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen.

Mit der Verwendung dieses Dokuments erkennen Sie die Nutzungsbedingungen an.

### Terms of use:

This document is made available under Deposit Licence (No Redistribution - no modifications). We grant a non-exclusive, non-transferable, individual and limited right to using this document. This document is solely intended for your personal, non-commercial use. All of the copies of this documents must retain all copyright information and other information regarding legal protection. You are not allowed to alter this document in any way, to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public.

By using this particular document, you accept the above-stated conditions of use.

## Evolution and Perspectives of Economic Relations of the Republic of Moldova and the European Union

Assoc. Prof. Zorina ȘIȘCAN, Ph.D. Hab.

[zsiscan@ase.md](mailto:zsiscan@ase.md)

Assoc. Prof. Mihai HACHI, Ph.D.

[mihai.hachi@studiieu.org](mailto:mihai.hachi@studiieu.org)

Academy of Economic Studies of Moldova, Moldova

**Résumé:** Dans cet article, nous avons tracé et analysé les principales étapes du développement des relations économiques entre la République de Moldova et l'Union Européenne. L'étude met en lumière certains problèmes fondamentaux et les perspectives de la coopération et de l'intégration mutuellement bénéfiques.

**Mots-clés:** relations économiques entre l'Union Européenne et la République de Moldova, commerce externalisé, économie sociale de marché, investissement étranger direct, la politique européenne de voisinage, l'Union douanière eurasiennne.

Initiation of the analysis of the evolution and perspectives of the economic relations of the Republic of Moldova and the European Union requires highlighting the essence of general socio-economic orientation of the RM, once it got its independence after the collapse of the USSR. Having received the international recognition as an independent state, the Republic of Moldova started its new economic and social history with the transition from a centralized planned economy based on public property to a market economy, implying the development of private property. In doing so, Moldova had to pass through a complex of social-economic reforms, determined by the doctrine of liberalism.

Referring to the formation of the institutional environment, important for the development of market relations of the Republic of Moldova in its first years of independence, one should mention the following. It started with the adoption of the Fundamental Law of the state – Constitution of the RM – in 1994. This Law envisages the development of *social-oriented market economy* in Moldova, the fact that has increasingly been paid attention to since the beginning of the 21<sup>st</sup> century. The very idea appeared under the influence of the social-oriented market economy models of the developed countries (France, Germany, Scandinavian countries, Japan, USA etc.).

Other laws, which formed the base for market relations were: Law on support and protection of small business (1994), Law about privatization (1997), Law on activities of

entrepreneurs and enterprises (1997), Government Decision nr. 270 (08.04.1999) on approval of the Government Activities Programme for 1999-2002 "Supremacy of Law, Economic revitalization and European integration".

Due to these and other laws and decisions, the structure of property changed. If in 1990 among economic agents dominated public property (60,4%) and collective property (39,6%), then in 2008 public property was 26,4% and private property constituted 66,8%. Currently, around 90% of property is private (Moldova în cifre, 2009).

The reform of financial-credit system took place: establishment of an autonomous statute of the National Bank, formation of commercial banks, introduction of national convertible currency (leu), creation of stabilization currency fund, balancing budget, reducing inflation etc.

Transition to market economy of the RM coincided with its strategic orientation to integration to the EU space. The fact of geographical belonging to the European space, shared historical and cultural heritage with it, and what is even more important the rich experience in market economy, especially socially-oriented market economy of the EU, conditioned that strategic orientation of Moldova.

The juridical base for the development of economic relations as well as other types of relations (political, cultural etc.) between the RM and the EU appeared under the *Partnership and Cooperation Agreement* (PCA) of 1994 which entered in force in 1998 for 10 years. On the basis of the PCA and within the European Neighbourhood Policy there was elaborated an Action Plan of the RM-EU for 2005-2008.

Adoption of the Plan as well as the elaboration of National Strategy of Building the Informational Society within the Electronic South-Eastern Europe Programme, supported by the Stability Pact for South-Eastern Europe, the UNDP, the European Commission and other organizations, intensified the socio-economic and cultural co-operation between RM and UE and contributed to the development of information and communication technologies. In accordance to the survey of "Measuring the Informational Society 2007", Moldova, although being backward in comparison with economically advanced countries, found itself among the states with mean Information and Communication Technologies (ICT) indicators but by its average annual grows rating Moldova even exceeded the countries with the highest ICT value, the indicator being 71, 49 compared with 42, 71 of Japan and 43, 63 of Finland (table 1).

In September 2009, Moldova was the first country in the world to launch high-definition voice services (HD voice) for mobile phones, and the first country in Europe to launch 14,4 Mbps

mobile broadband at a national scale, with over 40% population coverage. Today Moldova is considered to be the start-up for some telecommunication products of transnational corporations (for ex. 4G mobile telephony launched by Orange (France)).

The ENP encouraged the support of Moldova by such significant European Banks as the European Bank for Reconstruction and Development (BERD) and the European Investment Bank (EIB). In Moldova, EBRD focuses on improving business climate, supporting economic diversification and reforming energy and municipal sector. In particular, the Bank supports private companies with direct investments, with intermediary finance through local banks, and by developing local business skills. It also pays particular attention to privatization and post-privatization.

**Table 1**

**Distribution of the countries according to their ICT indicators**

Country	Networking indicator	Education indicator	Information indicator	Intensivity indicator	Magnitude of ICT Index	Average annual growth
<b>The highest ICT values (29 countries)</b>						
Sweden	605,1	153,8	464,5	470,59	377,69	43,52
Hong Kong, China	553,7	117,0	366,7	751,74	365,54	57,09
Netherlands	555,6	141,6	472,6	466,09	362,82	53,04
USA	346,7	143,3	443,6	499,37	323,85	44,17
Japan	243,3	132,7	386,5	348,96	256,90	42,71
Finland	371,3	154,0	347,9	373,18	293,51	43,63
<b>The high ICT values (28 countries)</b>						
Cyprus	233,6	121,3	279,1	307,04	221,95	42,80
Latvia	228,7	138,5	262,1	257,85	218,77	98,92
Romania	158,3	120,8	165,1	162,38	150,45	86,33
<b>The mean ICT values (63 countries)</b>						
Uruguay	145,9	128,2	164,0	137,49	143,31	37,66
Argentina	149,4	137,1	135,3	140,23	140,40	37,86
Livan	110,6	120,9	153,9	182,19	139,15	49,61
Moldova	101,2	111,2	114,2	84,82	102,19	71,49

*Source: Measuring the Informational Society 2007, ICT Opportunity Index and World Telecommunication/ICT Indicators, 1 st edition 2007*

It supported the growth of the private sector, including SMEs with a loan of up to €20 million equivalent to Mobiasbanca-Groupe Société Generale S.A. EBRD had a significant increase in its business volume in Moldova in 2008 by signed number of projects with the total value of € 77 million constructing so far, a strong pipeline for the near future. Among the Bank's investments there are the projects for infrastructure, corporate sector and financial institutions.

In 2006 in Brussels there was signed a Framework Agreement regarding the Cooperation between the RM and the EIB for 2007-2013. In 2006 the EIB offered to the RM a loan in sum of 630 mln which was followed in 2007 by the second one in sum of €20 mln, both being directed to the reconstruction and capacity extension of Chisinau International airport.

The European Investment Bank signed in 2010 lending operations to the Republic of Moldova for an amount of €150 mln of which 75 mln to upgrade the quality of Moldovan wine production and €75 mln support the rehabilitation and upgrade of priority roads (JSWP Country, p.21).

In 2009 Moldova becomes a member of the EU Eastern Partnership. As it has been underlined in the presentation of the External Relations Unit of the European Commission ([www.ec.europa.eu](http://www.ec.europa.eu)) for the period 2007-2010 Moldova received EC financial assistance of € 209,7 mln that is the largest after Ukraine (€ 494 mln). For Armenia the amount is of € 98,4 mln, Azerbaijan € 92 mln, Belarus € 21 mln and Georgia € 120,4 mln, plus € 500 mln to cope with the effects of August 2008 crisis. For the members of the Eastern Partnership it is foreseen a 75% increase of funding for 2011-2013. 50% of the additional funds are to be placed to Comprehensive Institution Building Programmers and 20% to regional development.

In January 29, 2010 the RM received a financial assistance provided by the IMF in sum of \$560 mln (€ 420 mln) over 3 years. The grant was supplemented by the EU macrofinancial assistance of € 90 mln. As an outcome, “in 2010 the Moldovan economy began to recover. Real GDP grew by 6,9%” (JSWP, Country, p.8) and constituted 4,4 billions (IMF, Worldoutlook 2010 est.). The government has focused fiscal and monetary policy on ensuring macroeconomic stability and fiscal consolidation. Budget deficit was reduced and constituted 2,5% of GDP in 2010 via 6,3% in 2009. The reduction was reached at the expense of cuts in general public services, regulatory rises in taxation, increases in VAT on gas, higher excise duties on tobacco products, luxury cars, alcoholic beverages, perfume etc.

At the same time, inflation rate registered 7,4% increase in 2010 (IMF, Worldoutlook 2010). It was driven up by increases in food prices, energy tariffs, the depreciation of MDL and higher excise rates. The Consumer Price Index rose to 7,41% (JSWP Country, p.8).

Besides, “the economic recovery has not yet reflected in *employment* creation. Unemployment continued to rise and was estimated at 6.5% according to the survey-based ILO methodology at the end of 2010 while officially registered unemployment is estimated at 3.4% for the same year. Youth unemployment (16-24 years old) also rose to 18.9% (JSWP, Country, p.9).

Some growth of GDP has not reflected in the solution of poverty problem either: 30% of the population lives in absolute poverty and 4.5% – in extreme poverty (ibid).

In the context of efforts to put the economy on a reform path as well as to improve the social situation, the government of Moldova has adopted a wide-ranging medium-term structural reform programme (“Rethnik Moldova”) which is in the streamline with the integration to the EU. The programme received the support of international donors at the Consultative Group meeting in March 2010, organized by the World Bank and by the European Commission. In the medium term, the government aims at further narrowing the budget deficit, mainly through an adjustment of current expenditure on wages, goods and services, and subsidies. In line with Action Plan objectives, the government also aims at reforming the civil service and the judicial system; combating corruption; reducing and streamlining business administration, providing greater support to small and medium-sized enterprises, and improving education and health. A total of EUR 1.9 billion (of which EUR 550 million from the EU) were pledged by international donors in support of the programme for the period 2010-2013 (JSWP, Country, p.9).

As a result of governmental efforts, it was approved the 2010 National Action Plan on Employment (March 2010); national legislation was further adjusted to the EU directives<sup>1</sup> following the *ratification of the ILO Convention on occupational safety and health* (May 2010).

In order to analyze the results of joint efforts of Moldovan Government and the EU partners in socio-economic domain for the period 2009-2011 in line with the ENP and the EP, it is relevant to address to the recent Report of the ex-Prime-Minister of the RM Vlad Filat. In April 27, 2012, the Prime-Minister reported to the Parliament and citizens related to the implementation in 2011 of the governmental programme “European Integration, Freedom, Democracy, Wealth, 2011-2014” (Vlad Filat, Raport, 2012). It was emphasized that the GDP of the country grew up by 6,4% and constituted 11.998 billion USD. For the first time in the last two years, the investments increased by 9,3%. Foreign direct investments grew up by 38,8% compared with 2010 and constituted 274 million USD. State deficit was reduced up to 2,4% (compared with that of 6,3% in 2009). State debt was reduced from 26,3% in 2010 up to 23,4% in 2011. The volume of industrial production increased by 16,7% and the volume of agricultural goods grew up by 4,6% compared with 2010. The volume of subsidies for agriculture constituted 400 mln MDL. In energy sector it is planned to unite the energetic networks of Moldova and Romania.

---

<sup>1</sup> Decision of May 2010 transposed into Moldovan national legislation the EU Directive (89/391/EEC) regarding the minimum requirements for health and safety at the workplace.

---

Having analyzed the business climate in Moldova, one can refer to the dynamics of the country rating in Doing Business World Bank Annual Reports. Thus, one may register dropping in positions from 2006 (position 83) to 2010 (87) and 2011 (90) (Corneliu Guțu, 2011) with sharp rise by 18 positions in 2012 (V. Filat, Raport, 2012).

The explanation can be found in the analysis of the “most problematic factors for doing business” section. For Moldova, among the top six factors for 2008-2009, there were: access to financing, corruption, inefficient government, bureaucracy, tax regulation, inadequately educated workforce, policy instability.

The problematic factors for doing business in 2010-2011 were reported as “policy instability (19,5%), corruption (16,8%), access to financing inefficient government bureaucracy (9,2%), government instability (9%) (Global Competitiveness Report, 2011). Thus, it is not incidental the jump in positions for Moldova in 2012, reported by the Prime Minister, if taken into account that the president of the country was finally elected, political crisis was overcome and political parties, keeping their pluralism, let the government work smoother and more effective, consistently implementing the National Indicative Programme (NIP) 2010-2013 in which, among others, it has been envisaged the fight against corruption, facilitation of the access to financing of business and administrative reform in order to make governmental bureaucracy more efficient.

The business climate was also improved due to the adoption of a Law on a “one-stop-shop” for business registration (June 2010) and a new Law on Internal Trade (September 2010) in which the authorization procedures for business activities are clearly stipulated. In order to strengthen tax administration it was developed and launched in 2010 the State Tax Service Development Plan for 2011-2015. The law on securities transaction was adopted in November 2011.

In August 2010, it was adopted the Action Plan for the Development of Accounting and Auditing on the Corporate Sector for 2009-2014. It presupposes the SMEs reporting with accordance to new National Accounting Standards which have already been updated in line with recent developments of International Financial Reporting Standards. This fact allows better “financial understanding” between Moldovan and European business partners and financial institutions.

Having analyzed the **external trade relations issues** in the context of the ENP and EP, the following matters are worthy to be mentioned. The socio-economic and human development of Moldova is much influenced today by the intensified globalization processes, on the one hand, and by interest of the country in the integration into regional structure of the EU, on the other hand. Moldova is more and more actively involved in European and world economic processes. This is

manifested, first of all, by the increase of its external trade volume (ETV). For only the last decade the ETV grew from US\$ 2.0 billion in 1997 to US\$ 7.3 billion in 2012. The noteworthy tendency here is that the share of the CIS countries goes down in both export and import of Moldova while the share of the EU countries goes up (table 2).

Table 2

**The share of countries of the CIS and the EU in export and import of the RM (in% to total)**

	Export			Import		
	1997	2006	2012	1997	2006	2012
<b>CIS</b>	68,6	50,5	42,9	51,6	36,6	31,2
<b>EU</b>	10,3	29,7	46,9	20,0	32,5	44,5
<b>Other countries</b>	21,1	19,2	10,2	28,4	20,9	24,3
<b>TOTAL</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

*Source: Composed and calculated on the basis of the data of Annual Statistic Report of Moldova, 2007, 2009 and 2012.*

Under the Eastern Partnership the tendency is expected to be intensified. In 2010-2012 it has been maintained around 47% of Moldovan export orientation to the EU markets. At the same time, because of high competition for similar with Moldovan goods at the EU markets as well as the differences in standard requirements, non-European countries remain to be the principle commercial partners of Moldova (Russia with 30,3% as main export partners and Ukraine with 5,7% and Russia with 15,7% as the key import partners in 2012 (BNS). The main reason for such import partners is that their products are much cheaper but still of rather good quality what is important for Moldovan population, the incomes of which are quite low.

Among European partners Romania is a leader for both export from and import to Moldova. Thus, in 2009 it was the second partner for export with \$ 239,7 mln and the third partner for import with \$ 311,7 mln (BNS). The situation has not changed much as of January 2012. Although the EU is a leader by its share in Moldovan export (50,72% or around \$ 75 mln), the CIS countries are leaders in import to Moldova (41,18% or around \$ 140 mln). Among the European partners for Moldovan export, Romanian one is the first (16,11% or about \$ 24 mln) and Italy is the second (11,20% or about \$ 17 mln). Among the key export partners of the CIS, Russia is the first (26,39% as about \$ 40 mln) followed by Ukraine (5,9% or 7,5 mln). The main import European partners are: Romania (10,84% or about \$ 37 mln), Germany (5,4% or about \$ 18 mln) and Italy (4,42% or about \$ 15 mln). From Non-European import partners there are: Russia (25,7% or \$ 87 mln), Ukraine (9,68% or about

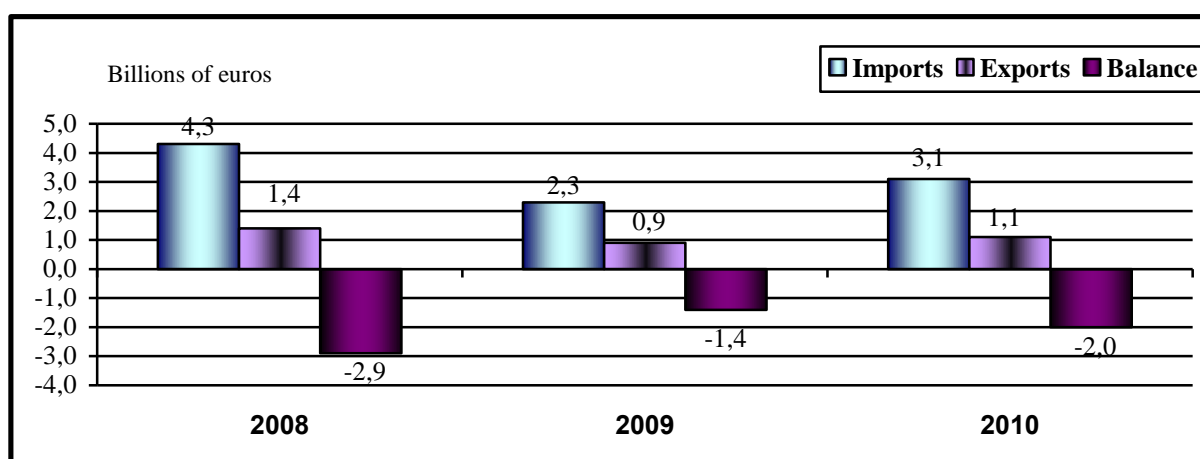


\$ 33 mln), China (8,46% or about \$ 29 mln), Turkey (7,01% or about \$ 24 mln) and Belarus (5,31% or about \$ 18 mln) (BNS, 2012). The actual reasons for such commercial situation are the same as mentioned above.

The negative trend that persists in Moldovan external trade is a huge trade balance deficit. The level of coverage of imports by exports in 2006 was just 39% compared with 47% in 2005 and 56% in 2004. The tendency persists if taken into account that in 2012 the trade balance was also negative and constituted 3051 US\$ mlrd (BNS) that is just 41,5%.

Among the main causes of such a situation one may refer to almost full liberalization of trade at the beginning of the reforms, economic crisis of 1998 in Russia, the embargo of Russia on the import of Moldovan wine-cognac products in 2007, the World crisis of 2008 etc.

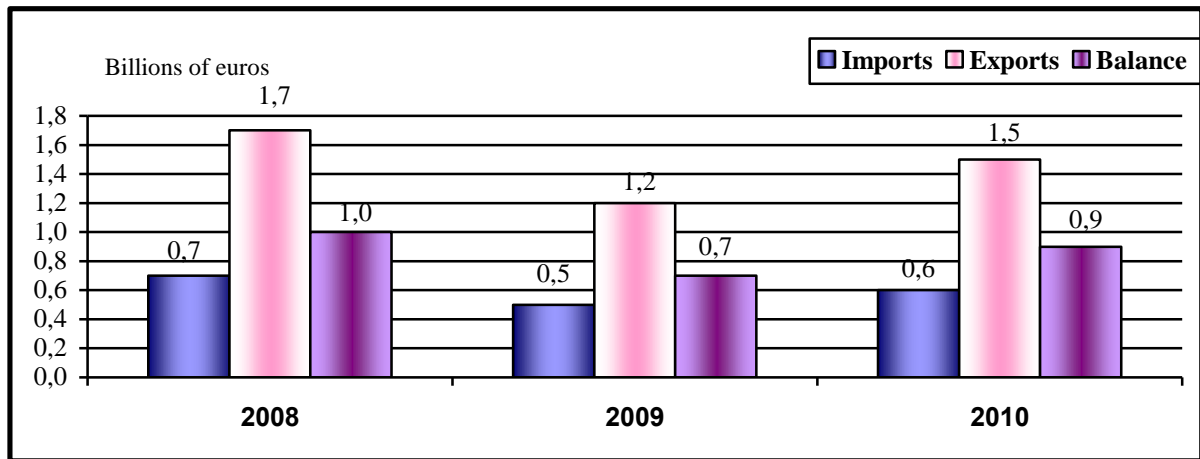
In 2009 there was observed some improvements but in 2010 the trade deficit increased again (fig. 1).



**Figure 1. Moldova's trade with the world**

**Source:** IMF (*Direction of Trade Statistics – DoTS*)

The EU exports of goods to Moldova constituted € 1,6 billion and the EU good imports from Moldova were € 582 million in 2010 ([www.ec.europa.eu/trade](http://www.ec.europa.eu/trade)). The trade balance shows constant positive dynamics (fig. 2).



**Figure 2. EU27 with Moldova**

*Source: Eurostat, Statistical Regime 4*

As of January 2012, it has been registered also trade deficit (191.406,5 thous. MDL) (BNS). The level of coverage of imports by exports, however, improved and constituted 43,5% (32,5% in 2008).

In order to solve the problem of trade deficit as well as to adjust the Moldovan goods to higher international standards of European markets, Moldova has to use in fuller extent those opportunities which have been provided by the EU as juridical basis for the development of bilateral commercial relations. In 1999, on the basis of PCA Moldova, it was granted by the EU with *General System of Preferences* (GSP) according to which the customs tariffs for the Moldovan exports to the EU were partially or totally reduced. The *System* was applied for 7000 processed goods (from 10.200 goods total of International Nomenclature of Goods Classification and Description) (CTPL, 2008, p.8). Since January 1, 2006, the EU launched for Moldova *the GSP+* for the period of 2006-2015 which included 7200 groups of products (Jurnalul Oficial, 2005). The decision was made within the ENP. Due to the positive results of the implementation of the EU-RM Action Plan 2005-2008, Moldova was granted in January 2008 with *Autonomous Trade Preferences* (ATP) up to December 2012 which gave an unlimited and duty free access to the EU markets for all products originating in Moldova for certain agricultural goods (Council Regulation, 2008). The ATP Regulation was amended in July, 2011, to increase tariff rate quotas from wine (from 2011), wheat barley and maize (from 2013) and to extend the validity by 3 years to

December 2015)<sup>1</sup>. As one may notice, the development of juridical base for the EU-RM commercial relations is in acceleration. This fact can be explained by the deeper involvement of Moldova in political and economic commitments with the EU: from the ENP to the EP and to the negotiations on an Association Agreement, at present.

As an outcome of the EU-RM markets liberalization, the bilateral trade between the EU and the RM has shown an increasing trend from 2006 to 2008 when total turnover of the EU trade with Moldova reached 2,5 billion. In 2009 it was registered a decline by 30% because of World financial crisis and in 2010 and 2011 a recover and growth were registered (2,1 bln and 2,7 bln, respectively). The boost of Moldovan exports was also conditioned by implementation of the project "Support to Export Promotion and Investment Attraction in the Republic of Moldova", for which country received from the EU € 1,6 mln in 2009.

Within the negotiations on the Association Agreement, the European Commission established, in June 2010, a detailed assessment of Moldova's preparedness for a *Deep and Comprehensive Free Trade Area (DCFTA)*. The "key recommendations" were elaborated. To address them, Moldova adopted a special Action Plan in October 2010.

DCFTA means higher degree of economic integration: not only goods but also services will receive access to circulate free on the EU-RM market. It also presupposes higher degree of intellectual property protection of the EU and the RM and higher technical requirements, quality standards etc.

As a base for DCFTA such facts become as: the Republic of Moldova has adopted over 700 EU standards since late 2009 on free movement of goods and technical regulations; it develops food safety Strategy and is in gradual approximation with the EU rules in the area of sanitary and phyto-sanitary (SPS) standards; Moldova trains SPS experts, further strengthens its laboratories etc. The adoption of the Law on Copyrights and related rights, in July 2010 (JSWP Country, p.11), and the Agreement on Geographical Indicators allow better identification of Moldovan goods by their origin. The adoption of the Law on Securities of Transactions (24.11.2011) contributes also to the base.

---

<sup>1</sup> Moldova would be able to export duty free additional 5 million litres of wine (50,000 hectolitres, or more than 6.6 million bottles) in 2011 to the EU, bringing it to a total of 150,000 hl for 2011. The volume would increase to 180,000 hl in 2012 and 240,000 hl for the each on the years 2013 to 2015.

The annual duty free tariff rate quotas for barley, maize wheat have been increased by 5,000 tonnes per year for the years 2013 to 2015 [Brussels, 2011, [www.trade.ec.europa.eu/](http://www.trade.ec.europa.eu/)].

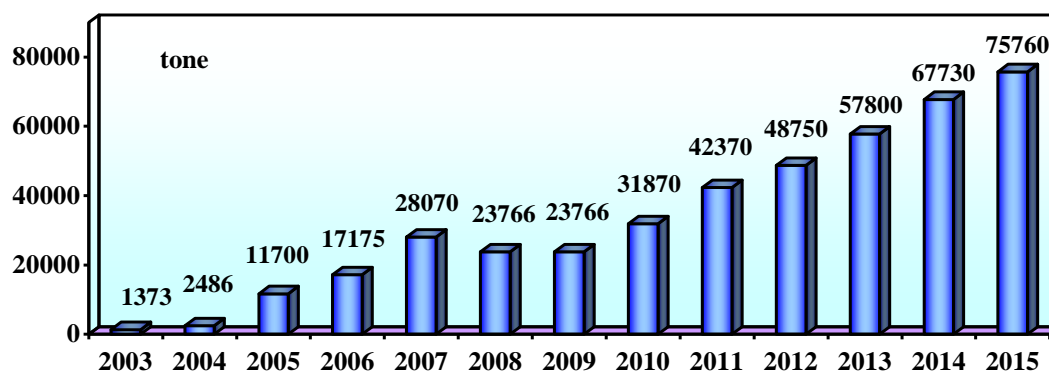
---

In February 2012 the EU Trade Commissioner Karel De Gucht came to Moldova to launch the negotiations on DCFTA. The first round was scheduled for March 2012. Signing of future agreement is foreseen for September 2013.

Alongside with optimistic expectations in respect of DCFTA, Moldovan experts share the opinion that it is also a great challenge for Moldovan economy. Thus, the vice-director of the Centre for Strategic Research and Reforms, doctor in economics Elena Gorelov, underlined the following. While the import of Moldovan goods to the EU markets grew up in 2011 up to \$ 1,08 billion, the import of the EU to Moldova increased up to \$ 2,25 billion. The chronic negative trade balance is dangerous for sustainable economic development of the country. More than that, the persisting tendency of negative trade balance has been taking place under the GSP+ and then ATP. In other words, Moldova has not solved yet its problems with competitiveness of its goods at the EU market as well as with strengthening its trade positions even having unilateral trade preferences. "The Agreement on DCFTA contains high risks for local producers... The Implementations of the system evaluation of goods in line with the EU standards, infrastructures for quality and SPS norms are very expensive. It would be good if Europeans help in purchasing the necessary equipment for laboratories. The further maintenance of their functioning, however, is expensive for national economy... I also worry if Moldovan goods will be able to compete at the local market with the European ones which would be free from customs duties. It is important to take into account that agriculture of the European countries is seriously subsidized, and export of goods is encouraged... In the remaining year and a half *it is necessary to calculate every step and take measures for increasing the competitiveness of Moldovan goods*" (www.aif.md, No 10, 2012).

It is important to take measures also with regard to the Consumer protection. "About 60% of vegetables are imported by Moldova from Turkey, Poland and Holland. If such products are processed by pesticides which are not registered in Moldova, our laboratory can not register the fact as we can not identify them, because we do not have the necessary for this chemicals-reactors", such fact has been reported by a representative of the General Inspection on Phytosanitary and Seeds Control (Antena, 29.04.2012). As a result, the importers receive certificates for "quality" of their goods but consumers suffer of allergy and not only. DCFTA is welcome in this context *to harmonize the SPS and to establish the EU-RM joint laboratories*. It will definitely encourage further development of eco agroproducts in Moldova as the EU is interested

in such products<sup>1</sup> and the positive forecast for export volume growth in this respect will become true (see fig. 3).



**Figure 3. Forecast for export volume growth of Moldovan eco agro goods**

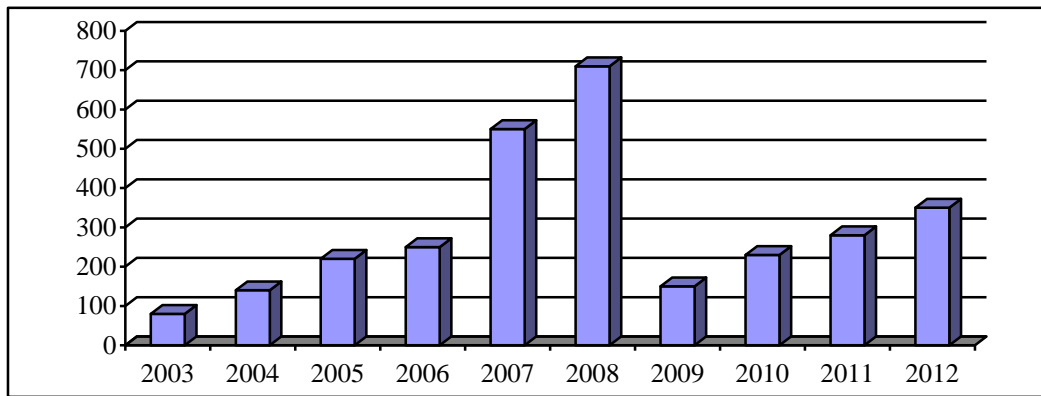
*Source: Ministry of Agriculture of Moldova, data 2011*

Having analyzed the RM-EU economic relations in the light of **capital investments issue**, one may refer to the following. Foreign Capital is considered to be an essential element of the economic reformation of the Republic of Moldova, taking into account that the proper financial resources are limited. It has been elaborated an investment attraction policy for boosting the development of economic branches which got to be in decline after the collapse of the USSR. Thus, the Law on Capital Investments was adopted in 1992, and the Law on Capital Investments in Entrepreneurial Activity – in 2004. The volume of foreign investments in the economy of the country has been growing over the last 10 years. Considerable drops in fluxes are observed in 2003 and 2009 (fig. 4). The first drop has been determined by inner economic and financial crisis of the RM in the 90<sup>s</sup> of the 20<sup>th</sup> century, the second drop has been conditioned by the world financial crisis of 2008.

Up to the 90<sup>s</sup> of the XX c, the external economic relations of Moldova had been oriented mostly to the East (about 96%) rather than to the European West (Moldovan, D. p.36]. Having received its independence, Moldova reoriented gradually its economic fluxes to other markets, as it has been mentioned above. The European Union market appeared to be the nearest and highly attractive.

<sup>1</sup> Autonomous Trade Preferences regime provides Moldova with substantial export opportunities, including unused potential for exports of beef, poultry, eggs, and dairy products. The EU is supporting Moldova in its efforts to meet the EU's public health requirements so that these products can be exported to the EU.

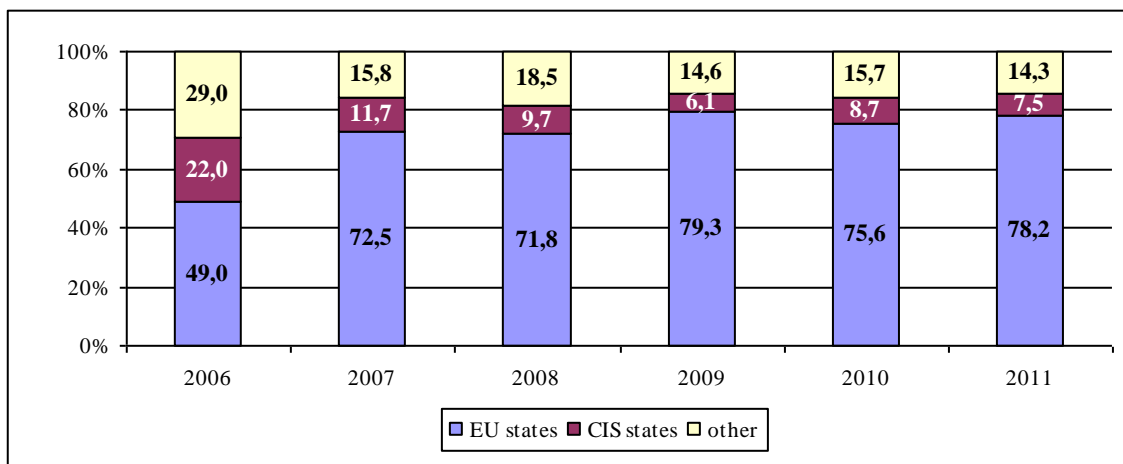
Vir: Brussels, 1 July 2011: Eu grants greater access to Moldova's exports from 1<sup>st</sup> July <http://trade.ec.europa.eu/doclib/press/index.cfm?id=722>



**Figure 4. Net flux of foreign direct investments in national economy, thous USD**

*Source: National Bank of Moldova*

Gradual liberalization of fluxes was initially undertaken in external trade then in foreign capital investments and labour force migration. If in external trade the geographical reorientation to the communitarian market was slower, then the foreign capital investment fluxes from the EU to Moldova, compared with the CIS, were reoriented faster and in significant disproportion, the financial possibilities of the EU countries being superior (fig. 5).



**Figure.5. The structure of FDI by country groups, 2006-2011, in %**

*Source: calculated on the basis of data of National Bank of Moldova*

More financial contribution of the EU countries to the RM can be explained, first, by the fact that Moldova has taken the strategic commitment of integration to the EU space; secondly, by the fact that the former republics of the USSR are also in profound socio-economic and political transformations that make them searching for both internal and external financial resources rather than investing them in other countries. These reasons contribute to the difference in “offers” which two alternative economic integration structures – options for the Republic of Moldova – display today: European Union and Eurasian Customs Union (table 3).

Table 3

## The Republic of Moldova between the European Union and the Eurasian Customs Union

	"The offers" of the EU	"The offers" of the ECU	Relation of "the offers" of the EU to those of the ECU (times)
1.	Market of 503,5 mln. consumers with high incomes	Market of 174,4 mln. consumers with mostly small incomes, high grade of income disproportion	2,9
2.	GDP/PPP – 15,6 trln. USD	GDP/PPP – 2,9 trln. USD	5,4
3.	GDP per capita – 34500 USD	GDP per capita 15800 USD	2,1
4.	Value of external trade – 3,8 trln. USD	Value of external trade – 1,0 trln. USD	3,8
5.	Annual internal investments – 2,88 trln. USD or 18,7% GDP	Annual internal investments – 603 mlrd. USD or 22% GDP	4,8
6.	Expenses for R&D and the development of new technologies – 239,7 mlrd. USD	Expenses for R&D and the development of new technologies – 15,3 mlrd. USD	15,6
7.	FDI in the EU – 7,9 trln. USD	FDI in the CIS – 435 mlrd. USD	19,7
8.	FDI from the EU – 9,5 trln. USD	FDI from the CIS – 330 mlrd. USD	31,6
9.	Volume of inner loans – 29 trln. USD	Volume of inner loans – 853 mlrd USD	33,9

**Source:** calculated on the basis of data <http://www.prb.org>; [www.cia.gov/library](http://www.cia.gov/library)

Having analyzed the structure of foreign direct investment of the EU countries to Moldova, one can observe that the most significant investors are companies from Holland, Italy, Cyprus, Germany and Romania (table 4).

Table 4

## The structure of the EU states FDI to the RM, 01.01.2013

State	Invested capital (mln. MDL)	%	Number of enterprises	%
Holland	2025,6	20,5	149	1,7
Italy	1330,7	13,5	972	11,3
Cyprus	833,2	8,4	273	3,2
Germany	590,5	6,0	388	4,5
Great Britain	456,2	4,6	208	2,4
Romania	452,0	4,6	1327	15,5
Spain	318,1	3,2	62	0,7
Poland	198,6	2,0	68	0,8
Bulgaria	51,9	0,5	165	2,0
Total	6256,8	0,63	3612	0,42
Total registered	9875	100	8566	100

*Source: adapted & calculated by the data of the State Registration Chamber,*

<http://www.cis.gov.md/content/6>

As it is seen from the table 4, the total number of the capital invested in the RM by the EU states constitutes 6256,8 mln. MDL or 63% from the total invested capital (9875 mln. MDL), the EU countries went forth in this respect compared with other investors, including from the CIS countries. The biggest number of the enterprises with the EU capital in Moldova refers to Companies of Romania (1327 or 15% of total registered). The fact can be explained by geographical proximity of countries, their common historical and cultural heritage and political considerations. Next number refers to enterprises registered with Italian capital (972 or 11,3%). It can be explained by the fact that Italy is one of the main directions of Moldovan labour force migration.

Transnational corporations represent the main source of foreign investments in the RM. There can be mentioned some advantages of foreign capital investment for both sides, among which revenue sharing, promotion of goods and business models at foreign markets, increase in competitiveness of mixed enterprises, benefits from technological transfer, managerial experience, appearance and development of new economic branches, goods, services, new jobs, especially, in case of investments in green field projects etc.

Division of European investments per economic sectors shows that the highest volume of investments is in services and the sectors with high revenue speed. The situation is explained by avoiding sectors with high grade of risk and uncertainty as, for example, agriculture and processing industry. The Republic of Moldova has not succeeded yet in attracting significant investments in capital intensive sectors with high grade of added value (table 5).

**Table 5**

**The disperse of FDI per economic sectors**

<b>Economic sector</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>First</b> sector, including:			
agriculture	0,6	0,7	0,9
<b>Second</b> sector, including:			
constructions	1,9	2,1	3,4
processing industry	19,1	19,1	16,0
<b>Third</b> sector, including:			
financial activity	16,9	25,5	22,4
wholesales and retail trade	23,6	19,5	19,5
real estates	16,9	13,0	18,9
transport and communications	6,0	11,6	7,0
distribution of energy, natural gas and	13,0	6,2	8,7



water hotel and restaurant services	1,3	1,5	1,3
Other activities	0,7	0,8	1,7
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

*Source: Investment Bulletin, MIEPO, 2011*

The largest European investors are also focused on services sector, especially banking, distribution of electric energy, real estate (table 6).

**Table 6**

**The largest European investors in the economy of the RM**

<b>Company</b>	<b>Origin</b>	<b>Domain of activity</b>
Commercial Bank "Eximbank – Gruppo Veneto Banka"	Ireland	Finance and Banking
Red Union Fenosa	Spain	Electric Energy distribution
Lafarge Cement Moldova JSC	France	Cement production
Romania Commercial Bank	Romania	Finance and Banking
Lukoil / Moldova LLC	Holland	Trade in petrol goods
Finpar Invest	Cyprus	Real estate service
Procredit Bank JSC	Germany, Holland	Finance and Banking
Metro Cash & Carry Moldova LLC	Holland	Commerce
Bemol Retail	Holland	Trade in petrol goods
BCA Unibank JSC	Great Britain	Finance and Banking

*Source: adapted on the basis of the data of National Bank of Moldova and "The largest investors and Companies of Moldova".*

Investors, experts and representatives of economic missions of diplomatic bodies in the RM appreciate some real advantages of the country regarding attraction of foreign direct investments: favorable geo-strategic and geo-economic position for both the EU market and the CIS one; member of the Agreement on Autonomous Trade Preferences with the EU; Agreement on Free Economic Area with the CIS; seven Free Economic Zones with preferential fiscal regime inside the country; membership in the Central European Free Trade Agreement (CEFTA) and the World Trade Organization (WTO); qualified labour force that knows, at least, two languages of international circulation and is easily adaptable to changes at work place etc. At the same time, there are considerable limits and reserves, among which one can mention political instability; imperfect mechanism for implementation of legislative acts and norms; bureaucracy and corruption of state bodies; weak infrastructure, small market dimension; low grade of development of financial market, and limited offer of finance tools and techniques (26; 21, p.15-16).

The Republic of Moldova, so far, has to keep its advantages and to be more active in the development of its favorable image by the means of responding to the actual barriers to the European investments and becoming more competitive and qualified in attraction of the FDI.

In general, one may conclude that the economic relations of the RM and the EU have experienced positive evolution and have got the perspectives of mutual benefits and common challenges to be met and overcome.

#### **Bibliography:**

1. Measuring the Informational Society 2007, ICT Opportunity Index and World Telecommunication/ICT Indicators, 1<sup>st</sup> edition 2007.
2. Joint Staff Working Paper (JSWP): Implementation of the European Neighbourhood Policy in 2010. Country Report: Republic of Moldova. EN SEC (2012) 643.
3. European Neighbourhood and partnership instrument Republic of Moldova. Country Strategy paper 2007-2013 // [http://ec.europa.eu/world/enp/pdf/country/enpi\\_csp\\_moldova\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/enpi_csp_moldova_en.pdf)
4. Moldova in cifre, Anuarul Statistic al Moldovei ,Chişinău, 2009
5. Baza națională a Statisticii (BNS) // [www.statistica.md](http://www.statistica.md)
6. ȘISCAN, Zorina. *The Analysis of the EU-Republic of Moldova Relations in the context of the EU 2014-2020 Financial Perspective* // [www.bridge-project.eu](http://www.bridge-project.eu), 2012
7. GUȚU, Corneliu. *The Impact of the Competitiveness of the Industrial Clusters of Regional development and Cross-border Cooperation*, p.364-367. In: Jean Monnet scientific – practical Conference with International participation *European Neighbourhood Policy and Eastern Partnership: Achievements, Obstacles and Perspectives*. Chisinau, 2011
8. FILAT, Vlad. Raport 2012 cu privire la implementare a Programului Guvernului RM „Integrarea Europeană” pentru 2011-2014 // [www.kp.md](http://www.kp.md). 28.04.2012.
9. Doing Business World Bank Report, 2009. <http://www.doingbusiness.org/custom-quer>
10. Doing Business World Bank Report, 2011 <http://www.doingbusiness.org/custom-quer>
11. Statistical Yearbook of the Republic of Moldova, Chisinau, 2007.
12. Statistical Yearbook of the Republic of Moldova, Chisinau, 2009.
13. Eurostat // [www.ec.europa.eu](http://www.ec.europa.eu)

14. Centrul European de Politică Comercială și Drept (CTPL). Ghidul antreprenorului. Preferențele comerciale autonome ale Uniunii Europene. Chișinău, 2008.
15. EU – Moldova Action Plan (2005)  
[http://ec.europa.eu/world/enp/pdf/action\\_plans/moldova\\_enp\\_ap\\_final\\_en.pdf](http://ec.europa.eu/world/enp/pdf/action_plans/moldova_enp_ap_final_en.pdf)
16. European Bank for Reconstruction and Development (EBRD) and Moldova  
<http://www.ebrd.com/pages/country/moldova.shtml>
17. Anuarul statistic al Republicii Moldova. Chișinău, 2010.
18. Anuarul statistic al Republicii Moldova. Chișinău, 2010.
19. Дефицит привлекательности: Молдова может остаться без собственных товаров?  
[www.aif.md](http://www.aif.md), No 10, 2012 (интервью Елены Гореловой).
20. MOLDOVAN, Dumitru. *Economia relațiilor economice externe ale Republicii Moldova*. Chișinău, 2009.
21. Крупнейшие инвесторы и компании Молдовы. Chișinău, 2012.
22. DOLTU, Constantin. *Investiții străine directe și influența lor asupra modernizării economiei în tranziție*. Chișinău: Arc, 2008.
23. Buletin investițional. MIEPO, 2011.
24. <http://www.cis.gov.md/content/6>
25. [www.cia.gov/library](http://www.cia.gov/library)
26. [www.prb.org](http://www.prb.org)

Copyright©Zorina ȘIȘCAN

Copyright©Mihai HACHI